

**Review of Public Service Pension Offset Procedures**  
**Report No. 99-03, October 15, 1998**

This report presents the results of an Office of Inspector General (OIG) review of procedures for reducing Railroad Retirement Board (RRB) benefits for a public service pension.

**Background**

The RRB administers retirement and survivor benefit programs for railroad workers and their families under the Railroad Retirement Act. These programs provide income protection during old age and in the event of disability or death.

The Railroad Retirement Act provides that spouse and survivor annuities be reduced by the same amounts required under the Social Security Act. The Social Security Act provides that spouse and survivor annuities be reduced by a portion of any public service pension amount being received by the annuitant. A public service pension is any periodic or lump-sum benefit payment based on the annuitant's own employment with a Federal, state, or local government of the United States. A similar offset is made to RRB retirement benefits of railroad employees who are also receiving retirement benefits from an organization not covered under the Social Security Act. This is referred to as non-covered service pension.

The tier 1 RRB benefits of a spouse, divorced spouse, or survivor annuity is an amount similar to the social security benefit that these types of annuitants would receive based on the employee's combined railroad and social security earnings. This reduction is not applied to claimants who both filed and were entitled to benefits prior to December 1977. For annuitants eligible for a public service pension before July 1983, the RRB will reduce the tier 1 annuity component by the full amount of the pension for months before December 1984 and by two-thirds the amount of their monthly pensions for months after November 1984. For annuitants eligible for a public service pension after June 1983, the RRB reduces the tier 1 annuity component by two-thirds of the monthly amount of the public service pension.

At the time annuitants apply for benefits, the RRB solicits information to identify the annuitants receiving a public service pension. Annuitants who specify on their applications that they are receiving or expect to receive a public service pension must complete a form detailing for whom they worked, when they became entitled or will be entitled to the pensions, and the amount of the pensions. An annuitant who begins receiving a public service pension at a future date is required to report the public service pension amount when it is received. The RRB performs an annual computer match with the Office of Personnel Management (OPM) to identify annuitants who fail to notify the RRB of the receipt of Federal government pensions.

One goal of the RRB's Strategic Plan is to provide excellent customer service. The first objective in meeting this goal is to optimize accuracy in providing benefits. Another goal is to safeguard trust funds through prudent stewardship. The first objective in meeting this goal is to ensure the integrity of benefit programs through comprehensive and integrated monitoring and prevention programs. This audit was designed to help the RRB meet these goals.

### **Objective, Scope and Methodology**

The objective of this audit was to determine if the RRB is properly adjusting RRB benefit payments for public service pensions. The audit focused on how the RRB identifies annuitants receiving a public service pension, determines whether to apply the offset, and calculates the public service pension offset.

To accomplish the objective, the OIG:

- reviewed regulations and procedures governing when the offset is applicable and how it is calculated;

- evaluated internal controls over the identification of public service pensions;

- interviewed program personnel;

- reviewed a sample of 28 of 810 cases, in which the annuitants' benefits were being reduced because they were receiving a public service pension and had an annuity beginning date between May 1, 1993 and May 1, 1998, to determine whether the offset was correctly applied and calculated;

- reviewed 169 cases in which the RRB's computer records indicated a PSP applied but contained no PSP amount to determine whether the offsets should have been applied; and

- reviewed 32 cases that had overpayments because the non-covered service pension or public service pension was not offset against RRB benefits to determine whether the applicants had indicated on their applications that they were going to receive public service pensions in the future.

Auditors relied upon information contained in the claim folders reviewed without further verification from RRB officials. The OIG conducted the audit in accordance with generally accepted government auditing standards. Auditors performed the fieldwork at the RRB headquarters office in Chicago, Illinois from April 1998 through August 1998.

### **Results of Review**

The RRB is calculating the public service pension offset amounts correctly. The RRB is also making correct determinations of whether benefits should be reduced for receipt of

public service pensions. The RRB can reduce overpayments by tracking individuals who indicate future entitlement to a public service pension at the time of application and by identifying individuals receiving a state or local pension. The RRB should also analyze situations in which public service pension offsets are inadvertently and inappropriately deleted when annuitants' records are processed for other purposes.

### **Tracking Future Public Service Pension Entitlements**

The RRB does not flag or track records of annuitants who indicate that they expect to receive a public service pension or a non-covered service pension at some future date.

It is the annuitant's responsibility to notify the RRB when he or she begins receiving a public service pension so the RRB can decrease benefits. Overpayments result when the annuitant does not notify the RRB upon receipt of a public service pension. Some annuitants who indicate future entitlement to a public service pension on their applications do not report receipt of the public service pensions to the RRB. Due to the resulting deduction in benefits, there is no incentive for an individual to notify the RRB when they begin to receive a pension. The RRB will identify public service pensions paid by OPM only after the annual match with OPM records. The RRB may not identify the payment of other public service pensions.

Two of the 169 individuals reviewed were receiving public service pensions, but their RRB benefits were not reduced. The individuals had indicated on their applications that they would be receiving a public service pension in the future, but the RRB did not follow-up with the annuitants. These public service pensions were not paid by OPM and, therefore, were not identified by the RRB's computer matches. The overpayments in these cases totaled \$16,832.

Twenty of 32 annuitants overpaid because their public service or non-covered service pensions were not offset against their benefits had indicated on their applications that they were going to receive a pension in the future. If the RRB had identified these records when the individuals applied for benefits and followed up on the status of the public service pension, about \$750,000 in waived overpayments could have been avoided.

### **Recommendation No. 1**

The Office of Programs should use the public service pension entitlement date to flag and track the records of retirement and survivor annuitants who indicate on their applications that they expect to receive a public service pension or non-covered service pension.

### **Management's Response**

Management agrees with this recommendation. The Calculation Analysis and System section will revise the procedures to instruct the examiners to enter tickler call-ups for future public service pension cases. The target completion date is December 1, 1998.

## **Unidentified Public Service Pensions and Non-Covered Service Pensions**

The RRB does not have an effective method for identifying individuals receiving non-federal pensions, such as from a state or local government. Consequently, there are annuitants receiving public and non-covered service pensions and their RRB benefits are not being reduced.

In six of the 169 cases reviewed, RRB benefits were not reduced for receipt of public service pensions. The overpayments in these cases totaled \$50,850. (Four of these overpayments totaling \$36,173 were discussed in other sections of the report.) Two additional cases may also not have the appropriate offset for the public service pension. The Office of Programs is still reviewing these cases. In all eight cases, the annuitants were receiving non-federal pensions.

The Social Security Administration's Master Earnings File contains information regarding earnings and pension amounts not covered by the Social Security Act. Currently, the RRB's Electronic Data Processing policing program uses the Social Security Administration's Master Earnings File to match annuitants ages 60 to 70 to determine if they have any earnings that are not being reported to the RRB. However, the RRB does not use this policing program to identify annuitants receiving public service pensions.

The RRB's annual computer matches with OPM in 1997 and 1998 showed the benefit of computer matches in identifying unreported pensions. These matches identified 64 annuitants who were receiving Federal public service pensions and who did not report receipt of the pensions. As a result, their RRB benefits were not properly offset. As of August 26, 1998, \$1.9 million in overpayments were identified through the RRB's annual computer matches with OPM and approximately \$350,000 remains outstanding.

## **Recommendation No. 2**

The Office of Programs should determine the feasibility of using data in the Social Security Administration's Master Earnings File to identify individuals with unreported non-federal pensions.

## **Management's Response**

Management agrees with this recommendation. The Payment, Analysis, and System section will perform a feasibility study. The target completion date for this study will be determined by December 1, 1998.

## **Inadvertent Deletion of Public Service Pension Offsets**

Public service pension offsets have inadvertently been deleted as a result of other processing.

Two individuals from a sample of 169 did not have their RRB benefits reduced for receipt of public service pensions. In one case, the public service pension offset was erroneously removed when the RRB recalculated the annuity. In the other case, the RRB deleted the public service pension offset from the annuitant's record when a cost-of-living adjustment was made to the RRB benefit. The overpayments in these two cases totaled \$19,341.

Both of these processing actions were done on the Retirement On-line Calculation System. RRB personnel were unable to explain why the computer system deleted the offsets. The RRB will have to perform computer extracts and matches to identify the number of similar cases.

### **Recommendation No. 3**

The Office of Programs should determine the cause and extent of the deletion of public service pension offsets, and take corrective action to reestablish the offsets, identify the amount of overpayments, and prevent additional overpayments.

### **Management's Response**

The Office of Programs is in the process of determining the feasibility of developing appropriate back end controls to identify these types of errors. The target completion date will be determined by December 1, 1998.